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SUBJECT: FISCAL TRANSPARENCY REPORT FOR VIETNAM

Ref: STATE 16737

11. Pursuant to reftel, the following is an updated Budget Transparency Report for Vietnam, current as of March 11, 2008. Post will also e-mail the text to Andrew Snow and Richard Figueroa in EEB/IFD/OMA as requested.

12. BEGIN TEXT OF REPORT

As part of its overall reform efforts, Vietnam is attempting to improve its public expenditure management and the consistency and transparency of budgetary information. Until 1999, the budget was covered by secrecy laws and was essentially considered a state secret. The new Law on the State Budget, promulgated in 2002, has

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shed some daylight on the budget and budgeting process. The Ministry of Finance now posts budget information on its web page and also issues a budget publication. Previously, only an aggregated amount of the total state budget revenue and a total expenditure figure, by ministry, were available publicly. Current budget publications provide details of state revenue broken down into 5 categories and 16 sub-categories. Current publications also provide details of expenditures by functional classification. Central ministries and local governments also disclose more detailed budgetary data in accordance with transparency regulations.

In December 2002, the National Assembly enacted amendments to the Law on the State Budget. Effective for the fiscal year 2004, it provides for the preparation, implementation, inspection, supervision, audit and balance of the state budget. The law clarifies the specific duties and responsibilities of each state body in connection with the management and use of revenues and expenditures, including the National Assembly, the government, governmental bodies, local People's Committees and People's Councils. The Ministry of Finance (MOF) is explicitly in charge of budget formulation while the Treasury Department (within MOF) is responsible for budget execution and reporting. The amendments also provide for the audit of the state budget, which must be carried out before the National Assembly or the relevant People's Council (which approves the state budget balance sheet). The State Audit Board is by law the only body allowed/required to carry out such audits, but it is not truly independent from the executive branch and its procedures are not fully transparent. The audit report must be reported to the National Assembly and other government agencies, but the Board is not required to make such audits public.

The National Assembly has also established a new Committee on Budgetary Affairs to focus on the technical issues of its expanded role in reviewing, approving, and monitoring state budget activities. The ability of the National Assembly, however, to carry

out these responsibilities fully and effectively remains limited due to lack of resources and capacity.

The World Bank, the European Union and some donor countries, such as Japan, Australia, Germany and the United States, are providing assistance in the area of public finance management. As a result of this assistance and the GVN's efforts to improve its institutional and legal framework, state budget expenditure management in Vietnam has achieved some positive results. The new State Budget Law institutionalizes clearer and more appropriate budget decision authority for government agencies at all levels. It also has a stronger focus on decentralizing state budget management and provides for implementing regulations on provincial autonomy, including the right to make expenditures already approved in the budget. The government has issued State Budget implementing regulations that give uniform instructions on expenditure control. With regard to budget revenue management, a pilot implementation program for tax self-reporting and payment for businesses has begun.

While the situation is improved, Vietnam's budgetary system is still far from transparent and accountability remains a problem. Vietnam has not volunteered to be evaluated for the IMF's Report on Compliance with Standards and Codes covering fiscal transparency.

Increased transparency and accountability in Vietnam is directly linked to the country's economic, financial and trade-related reform efforts. USAID technical assistance in this area focuses on trade and investment, financial sector reform and economic governance. The major program in this area is USAID's Support for Trade Acceleration (STAR) initiative, which is designed to support the Government of Vietnam's efforts to liberalize its trade and investment regime consistent with its commitments under the Bilateral Trade Agreement (BTA). The BTA covers key issues related to transparency, rule of law, market access for goods, services and investment, protection of intellectual property rights, dispute settlement and business facilitation -- and presaged 70% of the commitments required of Vietnam to accede to the WTO. In

HANOI 00000285 002 OF 002

January 2007, Vietnam became the 150th member of the WTO. The USAID STAR program expanded to support both BTA and WTO implementation, to support improvements in the policy environment for private sector development, and to support improved rule of law and governance more broadly. This began in 2004-5 with technical assistance to the Committee on Economic and Budgetary Affairs (CEBA) in the National Assembly on estimating tariff/tax revenues resulting from policy changes, briefing NA leadership on the operation of the U.S. Government Accounting Office, and providing recommendations on how the new State Auditing Board could operate (using the example of how the US GAO responds jointly to the U.S. Congress and the Executive Branch).

After more than six years of operation, USAID/STAR has now assisted the Vietnamese Government and National Assembly to revise or develop anew around 100 laws and implementing regulations, including almost every major law affecting commercial activity, the rule of law, and economic governance and transparency in Vietnam. Currently, STAR is a lead advisor in the development of a second generation of financial market laws, critically related to developing a stronger and more independent State Bank, and a more modern and better regulated banking system. STAR and the U.S. Securities and Exchange Commission were, and continue to be, lead advisors to developing and refining the new, highly regarded Securities Law, the new Law on Negotiable Instruments, and key new regulations on Secured Transactions. STAR is also a lead advisor in a second generation of reforms to the Law on Laws, which provides support for more progressive and open regulations on legal and legislative transparency, and in the development of a landmark Administrative Procedures Code. STAR and the USAID-funded Vietnamese Competitiveness Initiative (VNCI) project are working together closely as lead advisors to the GVN on a regulatory reform program across the entire Vietnamese government, including 22 ministries and 64 provincial governments.

Relevant laws/regulations on budget disclosure: Law of the State Budget; Prime Minister's Decision 225/1998/QĐ-TTĐ; Ministry of Finance Circular 01/2002/TT-BTC; and Prime Minister Decision

192/2004/QD-TTg. The national budget is published with minimum delay in the newspaper and on the internet.

END TEXT OF REPORT

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